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## Poland

### Agricultural Situation

### Increase of Farmer's Agricultural Income in 2006 2007

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**Report Highlights:**

This is an update to income information presented in GAIN report PL7007 about the impact of accession on Polish agriculture. In 2006, income of Polish farmers was up over 80 percent in comparison to the 2000 level and was almost 11 percent higher than in 2005. The increase comes mainly from the direct payments received by farmers from the EU and higher demand for exports of Polish food to the other EU countries. The distribution of direct payments, which are based on farm size, is causing strong uneven income distribution among farmers. Major farm unions have expressed concern about this issue, but otherwise seem satisfied with developments in Polish agriculture since accession.

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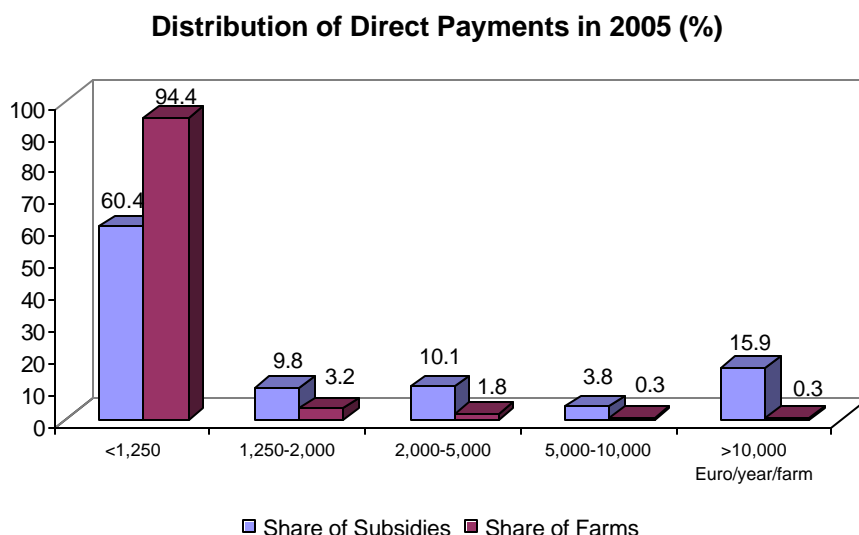
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Although a majority of Polish farmers rallied against EU membership, a recent EU report reveals that they are clearly benefiting from what they had earlier opposed. According to a recent Eurostat report (No. 38/2007), the average annual income of Polish farmers increased just over 80 percent between 2000 and 2006. Between 2005 and 2006, average Polish farm income rose almost 11 percent due to EU subsidies and higher grain prices as a result of reduced yields from drought. Within the EU-25, this was the second largest increase of farmer income after the Netherlands.

EU direct payments funded from EU and Polish government sources are a key reason behind the rise in local farmer income. According to a government contact, in 2005 and 2006, Polish farmers received as direct payments, PLN 8.4 and 9.3 billion (US\$ 2.6 and 3.0 billion), respectively. Other reasons for farm income growth, all tied to accession, include increased Polish agricultural exports to other EU countries (up 25% in value between 2006 and 2005) and higher farm-gate prices. In 2006, the average agricultural producer price (APP) in Poland was up 4.7 percent in comparison to 2005. This increase was more than double the 1.8 percent increase in the average APP for the EU-25 for the same period, according to Eurostat.

Despite the positive income news, many Polish farmers remain impoverished due to the small size of their farms. Nearly 70 percent of local farms are less than 5 hectares (12.5 acres) in size and size is the basis on which EU direct payments are made.

Consequently, as the following graph illustrates, in 2005 about 95 percent of Polish farms averaged less than Euro 1,250 (US\$ 1,600) in direct payments, an amount that is too low to make much difference in an increasingly competitive market, according to experts. In contrast, less than one percent of local farms received Euro 5,000 (US\$ 6,500) or more in direct payments. In 2006, the average annual direct payment per farm in Poland amounted to PLN 6,300 (US\$ 2,030) according to a government contact. As the graph shows, income from direct payments is unevenly distributed. In 2005, less than one percent of Polish farms received nearly 20 percent of total direct payments.



The National Association of Agricultural Chambers (NAAC), one of the largest farmer organizations in Poland, agrees that farm incomes are rising, but pointed out that the increase is only an average and fails to reflect the difficult situation of farmers in different branches of Polish agriculture. For example, the NAAC noted that hog and poultry producers suffered a significant income loss in 2006, due to a decline in poultry prices, as a

result of an avian influenza outbreak, and a collapse in hog prices due to cyclical over production. The NAAC also highlighted the very significant regional income differences that are developing in Poland. For example, because farms in the southeast are smaller, their income remains much lower than larger farms found in western Poland.

Another major farm group, the National Union of Farmers, Farm Circles and Farm Organizations, disputes the income data, claiming that it grossly exaggerates the increase. Union officials believe that because production costs were significantly under estimated, farm income has risen less than indicated by the official data. Consequently, the Union has decided to prepare an independent report by mid-June 2007 on the current status of local farm income.

The Ministry of Agriculture recently prepared a study on Polish agriculture in response to a request from the Agricultural Commission of Parliament. The study was discussed during a recent panel meeting with representatives from the Institute of Rural Economics. The Ministry has declined to reveal the report's findings but, according to one attendee, the panel concluded that the available data does not permit a proper evaluation of local farm income.

Note: Most of the largest farms in Poland today were created from former state-owned farms. (However, unlike other former Soviet block countries, farm collectivization in Poland was minimal.) In addition to being very large, they are usually well-managed. The Polish media refers to these farms as "latyfundia", calling to mind the large farms owned by the Catholic Church during the Middle Ages.

One of the largest farms in Poland is located in the northwest, near the German border. It is 35,000 acres in size and is a cooperative enterprise, owned and managed by the farmers who work it. The farm produces a variety of products, from grains to vegetables, and is an extremely integrated operation. It produces and stores its own animal feeds, raises and processes its own animals, and markets the meat in its own retail outlets. It is estimated that this farm received approximately PLN 4.3 million (US\$ 1.3 million) in EU direct payments in 2006.

A visit to the farm clearly reveals that it has experienced an investment boom since Poland's accession to the EU. A new, very modern grain storage facility, a new feed plant and a new meat processing facility have been added to the farm since accession, and were built in large part with EU subsidies. End Note.

Comment: There is no dispute that average farm income in Poland is rising. It is also a fact that larger farms receive greater subsidies and are effective at using these subsidies to further improve productivity. While the major Polish farm groups are concerned about the growing inequalities in farm income, they are unlikely to press for action because they are closely tied to the current government. In fact, the NAAC is located within the Ministry of Agriculture and its former head currently is an agriculture under secretary. Both groups have received significant funding from the government. They also are slowly accepting the fact that Brussels, not Warsaw, is primarily responsible for establishing EU farm programs.